GLOSSARY OF COMMON RISK TERMS

Executive Summary

Common risk language is an integral component of solid risk management infrastructure, which enables management to establish a structure and a set of guiding principles to ground the organization in the risk management agenda.

To support risk management executives in creating a dictionary of risk terminology that is consistent across the organization, this glossary defines approximately 150 commonly used risk types and terms.

A

Access Risk: Failure to adequately restrict access to information (data or programs), resulting in an unauthorized knowledge and use of confidential information. Alternatively, access risk could also arise due to overly restrictive access to information precluding personnel from performing their assigned responsibilities effectively and efficiently.

Accounting Information Risk: Accounting information risk most commonly arises when:

- Accounting is not performed in accordance with prescribed accounting rules and regulations (e.g., IRFS, GAAP)
- There are issues with respect to the accuracy and completeness of data
- Accruals are inappropriate and/or not properly supported
- Account reconciliations are not current or accurate

Active Risk: The difference in the volatility of the returns in an active portfolio relative to the portfolio's benchmark.

Alignment Risk: Failure to align business process objectives and performance measures with enterprise-wide and/or operating unit objectives and strategies. This results in conflicting, uncoordinated activities throughout the company.

Active Asset Allocation Risk: A component of Total Fund Tracking Error that results from the difference between the actual allocation to each asset class and the policy allocation.

Audit Plan Integration: Internal Audit's coordination with existing risk management activities to assess company risk and build the audit plan, so that the audit plan is a clear reflection of management's articulation of risks.

Availability Risk: Unavailability of important information (when needed) threatening the continuity of a company's critical operations and processes.

B

Budget and Planning Risk: Non-existent, unrealistic, irrelevant, or unreliable budget and planning information causing inappropriate financial conclusions and decisions.

Budgetary Pressures Risk: Risk that financial objectives at the business unit or central level will not be achieved as a result of the financial pressures created by any project leading to a cut in budgets in the following year.

Business Interruption Risk: Business interruptions stemming from the unavailability of raw materials, information technologies, skilled labor, facilities or other resources, or major restructuring drive threatening to impact operations.

C

Capacity Risk: Risk that the implementation of the policy or project will exceed the company's management capacity.

Cash Flow Risk: Exposure to lower tax returns or the necessity to borrow due to shortfalls in revenue or expected revenue (or variances in their timing).

Catastrophic Loss Risk: Change that a major disaster could threaten the company's ability to sustain operations, provide essential products and services (to internal or external customers depending on the business unit), or recover operating costs.

Change Readiness Risk: The people within company (or business unit) and company's technology partners are unable to implement process and product/ service improvements quickly enough to keep pace with changes in the marketplace or to meet business requirements.

Communications Risk: Ineffective communication channels may result in messages that are inconsistent with authorized responsibilities or established performance measures.

Compliance (Regulatory) Risk: Non-compliance with customer requirements, prescribed organizational policies and procedures, or laws and regulations may result in lower quality, higher costs, lost revenues, unnecessary delays, penalties, or fines.

Contingency Planning Risk: Failure to develop and embed in the organization crisis management protocols in advance of crisis conditions.

Contract Information Risk: Insufficient or inadequate information collected to track contract commitments and to perform effective contract management.

Controls Risk: Risk of operational processes and procedures in place that are either excessive or insufficient related to the operational requirement and exposure.

Counterparty Risk: Risk that another party in agreement will default. *See Partnering Risk.*

Cost (or Time) Overruns Risk: Risk that the policy, program, or project takes longer to complete or implement, or costs more than was anticipated resulting in reputation damage to the minister or government.

Commodity Risk: Risk of uncertainties of future market values and of the size of the future income, caused by the fluctuation in the prices of commodities. These commodities may be grains, metals, gas, electricity etc.

Credit Risk: The exposure to actual loss as a result of the default (or other failure to perform) by an economic or legal entity with which the company does business; usually refers to a bad debt possibility.

Currency Risk: Risk arising from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.

Customer Satisfaction Risks: A lack of appropriate focus on customers' needs and wants threatens company's ability to meet or exceed customer expectations. The risk is that Customers are not getting what they need or want—be it service, product offerings, information (internal /external customers), etc.

D

Damage or Theft Risk: Equipment is subject to breakdown, wear and tear, employee or contractor theft, viruses, or is exposed to potential loss or misuse.

Demand Risk: Inability to meet current demand, or failure to sense a shift in demand.

Detection Risk: Risk that the auditing procedures used will not find a material misstatement in the financial statements of the company being audited.

Disaster Risk: A major disaster threatening the company's ability to sustain operations, provide essential products and services, or recover operating costs.

E

Economic Impact Risk: Risk that company's growth will stall as a result of changes in the economic environment; these changes could either be forced by the government or happen due to market forces.

Economic Reform Risk: Government policies, programs or projects intended to stimulate economic growth can adversely impact the business prospects of companies.

Effectiveness Risk: When processes and procedures are either:

- Not clearly defined or poorly aligned with the strategies driving the business area
- Not performing effectively and efficiently in satisfying customer needs at or below cost levels incurred by alternative service providers

Efficiency Risk: Inefficient operations threaten the company's ability to provide service at or below cost levels incurred by competitors or world class performing companies**.**

"Embedding in Workflow": Full and formal integration of risk management into existing company processes, such as strategic planning, project management, external communications, and other key management processes.

Employee/Third-party Fraud Risk: Fraudulent activities perpetrated by employees, customers, suppliers, agents, brokers, or third-party administrators against the company for personal gain (e.g. misappropriation of physical, financial or information assets), exposing the company to financial loss.

Enterprise Risk Management (ERM): The process of planning, organizing, leading, and controlling the activities of an organization in order to minimize the effects of risk on an organization's capital and earnings.

Environmental Risk:	Risk associated with economic or administrative consequences of slow or catastrophic environmental pollution.
Environmental Reform Risk:	Risk that government policies, programs or projects intended to reform environmental practices increase the health risks of citizens or adversely impact some companies' business prospects.
Environmental Scan Risk:	Failure to monitor the external environment or formulation of unrealistic or erroneous assumptions about environmental risks may cause the company to retain business objectives or strategies long after they have become obsolete.
Equity Risk:	Risk of loss in the value of an investment.
Expectation Risk:	Shareholders, customers, revenue authorities or other stakeholders have expectations that exceed the company's capacity to fulfill. A lack of focus here threatens the company's capacity to meet or exceed their expectations.

F

Facilities and Capital Assets Risk:	Improper due diligence and controls in the acquisition, management, and disposal of facilities and capital assets expose companies to loss and misuse.
Financial Health/Economic Uncertainty Risk:	Risk of increasing input costs (such as labor, fuel, and supplies) or decreasing revenues due to economic factors beyond company (or business units) control, having a negative impact on financial results and/or the ability to achieve objective.
Financial Reporting Evaluation Risk:	Failure to accumulate relevant and reliable external and internal information to assess whether adjustments to or disclosures in financial statements are required may result in the issuance of misleading financial reports to external stakeholders.
Financial Resources Risk:	Insufficient access to required financial resources threatens the company's capacity to execute its plans.

Financial Systems Risk: Risk that some essential financial transactions are subject to breakdown or inaccuracies resulting in errors or delay.

Fiscal Year Pressures Risk: A project delay due to fiscal year planning timeframes or unforeseen budgetary restraints.

Funding Risk: Risk that spread income will suffer because of a change in interest rates.

H

Hazards Risk: Hazards that threaten the company's (specifically the business unit's) ability to sustain operations, provide essential services, or recover operating costs. Hazard risks include biological, drought, dam, flooding, fire, hurricanes, heat, hazardous materials, nuclear, thunderstorms, tornados, terrorism, and winter weather.

Health and Safety Risk: Failure to provide a safe working environment for workers exposes them to physical or emotional risk, and the company to compensation liabilities, loss of business reputation, and other costs.

Human Resources Risk: Lack of requisite knowledge, skills, and experiences among the company's key personnel threatens the execution of its business model and achievement of critical business objectives; current staff may leave or the company will be unable to recruit and retain an adequate number of skilled and knowledgeable employees.

I

Illegal Acts Risk: Illegal acts committed by managers or employees may expose the company to fines, sanctions and loss of customers, revenue and reputation.

Implementation Risk: Risk that the project, once approved, will not be implemented as planned.

Information Quality Risk: Irrelevant or erroneous information is produced, which may adversely affect users' decisions. Conversely, required relevant information for managing the company is neither produced nor available in a timely manner.

Infrastructure Risk: The risk that the company does not have the information and technology infrastructure (e.g. hardware, networks, software, people and processes) it needs to effectively support the current and future information requirements of the business in an efficient, cost-effective, and well controlled fashion.

Inherent Risk: The raw risk, with no mitigation factors or treatments applied to it.

Integrity Risk: Risks associated with the authorization, completeness, and accuracy of transactions as they are entered into, processed by, summarized by, and reported by the various application systems deployed by the company.

Interest Rate Risk: Risk that a security's value will change due to a change in interest rates. For example, a bond's price drops as interest rates rise. *Also see Funding Risk*.

Investment or Project Evaluation Risk: Lack of relevant and/or reliable information supporting investment or project decisions and linking the risks undertaken to the capital at risk may result in poor decisions.

K

Knowledge Capital Risk: Processes for capturing and institutionalizing learning across the company are either non-existent or ineffective, resulting in slow response time, high costs, repeated mistakes, slow competence development, constraints on growth and unmotivated employees; Company's knowledge asset will be lost or damaged through loss of/inaccessibility to data storage, loss of key staff, inability to collect, analyze and disseminate information.

L

Labor Relations Risk: Risk that government action, negotiation delay, or a company decision to implement alternative service delivery models may contravene collective agreements or mutually acceptable business practices.

Leadership Risk: Risk that people are not being effectively led, which may result in a lack of direction, customer focus, motivation to perform, management credibility, and trust.

Legal Risk: Changing laws threaten capacity to consummate important transactions, enforce contractual agreements, or implement specific strategies and activities.

Leverage Risk: The risk of financial loss due to the perceived or actual inability to repay debt.

Liquidity Risk: Insufficient liquidity (either through cash generated, cash on hand, or access to credit) may cause the company to default on a financial obligation (such as supplier payments or payroll).

Lost Opportunity Risk: Delays in approval on projects, where the optimum window of opportunity is time-limited or situational, and results in a failure to implement the project.

M

Management Fraud Risk: Intentional misstatement of financial statements or misrepresentation of the company's capabilities or intentions may adversely affect external stakeholders' decisions.

Management Risk: Managers and employees are not properly led, do not know what to do when they need to do it, exceed the boundaries of their assigned authorities, or are given incentives to do the wrong thing.

Market Risk: Exposure to uncertainty due to changes in rate or market price of an invested asset (e.g., interest rates, equity values).

Measurement (Operations) Risk: Non-existent, irrelevant, and/or unreliable non-financial measures may cause erroneous assessments of and conclusions about operational performance.

Measurement (Strategy) Risk: Non-existent, irrelevant, and/or unreliable performance measures that are inconsistent with established business strategies and threaten the company's ability to execute strategies.

O

Operational Risk: Exposure to uncertainty arising from daily tactical business activities.

Opportunity Loss Risk: The use of funds in a manner that leads to the loss of economic value, including time value losses and transaction costs.

Outsourcing Risk: Outsourcing activities to third parties may result in third parties not acting within the intended limits of their authority or not performing in a manner consistent with company's (or specifically the business unit)'s strategies and objectives.

Organization Structure Risk: Risk that management lacks the information needed to assess the effectiveness of the company's organizational structure, which threatens its capacity to change or achieve its long-term objectives.

P

Partnering Risk: Inefficient or ineffective alliance, joint venture, affiliate, or other external relationships affect company's capability to compete. These uncertainties arise due to choosing the wrong partner, poor execution, or failing to capitalize on partnership opportunities.

Performance Gap Risk: Inability to perform at acceptable levels in terms of quality, cost and/or cycle time performance due to inferior internal operating practices and/or external relationships threatens the demand for the Company's programs or services.

Performance Risk: Unrealistic, misunderstood, subjective, or non-actionable performance measures may cause managers and employees to act in a manner inconsistent with the company's objectives, strategies and ethical standards, or with prudent business practice.

Planning Risk: Reliance on an unimaginative or cumbersome strategic planning process, which results in irrelevant information and threatens the company's capacity to formulate viable goals and objectives.

Policy Risk: The risk assuming that the Total Fund is invested in the policy benchmark.

Political Risk: Risk of a strategic, financial, or personnel loss for a firm because of such nonmarket factors as macroeconomic and social policies (fiscal, monetary, trade, investment, industrial, income, labor, and developmental), or events related to political instability (terrorism, riots, coups, civil war, and insurrection).

Price Risk: Risk arising out of adverse movements in the world prices, exchange rates, basis between local, and world prices.

Probity Risk: Incomplete, inaccurate and/or untimely reporting of required financial and operating information to regulatory agencies may expose the company to reputation loss or legal action.

Program/Service Failure Risk: Risk that the company's level of customer service is degraded (i.e. promptness, timeliness, accuracy, or completeness of service) or faulty or non-performing programs or services expose the company to complaints, liability claims, litigation, loss of revenues, and administrative or management reputation.

R

Regulatory Reporting Risk: Risk that incomplete, inaccurate, and/or untimely reporting of required financial and operating information to regulatory agencies may expose company to fines, penalties or sanctions.

Regulatory Risk: Risk that changing regulations threaten competitive position and capacity to conduct business.

Relevance Risk: Irrelevant or erroneous information created or summarized by an application system may adversely affect users' decisions.

Reputational Risk: Risk that negative publicity regarding an institution's business practices will lead to a loss of revenue or increased litigation. An institution's reputation, particularly the trust placed in the organization by its customers, may be irrevocably blemished due to perceived or actual breaches in its ability to conduct business ethically, securely, and responsibly.

Residual Risk: The degree of risk exposure remaining after mitigation factors have been identified and factored in.

Risk Anticipation: The process of identifying emerging risks and proactively putting plans in place to address them.

Risk Appetite: The set and documented risk threshold and tolerance guidelines that establish appropriate levels of risk exposures to achieve organizational goals.

Risk Assessment: Application of quantitative and qualitative methods to assess the likelihood and potential impact of risk events; includes aggregation and comparison of risk assessments across business units. Generally, quantitative risk assessment requires calculations of two components of risk*:*

- Impact – the magnitude of the potential risk (i.e., significance)
- Velocity – the speed at which the risk will occur, if it occurs
- Likelihood – the probability that the risk will occur

Risk Awareness in the Business: Employees at all levels in the business understand how risks (enterprise, strategic, financial, operational, regulatory, etc) manifest in their part of the business.

Risk Awareness of the Board & Senior MGMT: The Board and senior management are fully aware of the top risks facing the organization at any given time.

Risk Capital: Capital required to finance the consequences of business risks.

Risk Concentration: The concentration of revenues from a particular product, market, geographic location, or concentration of investments in particular segments, each of which exposes an organization to loss due to adverse changes.

Risk Control: The technique of minimizing the frequency or severity of losses by conducting proper training, safety, and security measures is defined as risk control.

Risk Dashboard: The graphical representation of an organization's key risk measures (often against their respective tolerance levels). These are typically used in reports to senior management or Boards.

Risk Financing: Achievement of the least cost coverage of an organization's loss exposures, while assuring post-loss financial resource availability. The risk financing process consists of five steps: identifying and analyzing exposures, analyzing alternative risk financing techniques, selecting the best risk financing technique(s), implementing the selected technique(s), and monitoring the selected technique(s).

Risk Framework: The structure or framework for managing risks and defining how risk management is embedded into the organization and can be used in the normal conduct of business.

Risk Gap: The difference between the net premium (plus capital) and surplus and net retained insurance or reinsurance limits.

Risk Identification: The process by which management effectively identifies all major types of risks posed by their relevant activity or function. Ideally, a top-down and bottom-up approach for identifying the top risks facing the organization, taking into consideration the company’s business objectives.

Risk Index: Average losses for a homogeneous group of risks, used for risk pricing purposes.

Risk Integration: Assimilation of risk management in existing company processes, including strategic planning, project management, external communications, and other key management activities.

Risk Language: Common risk vocabulary, including a universal definition of risk and risk terminology that does not vary by organizational unit. Also, the inventory of relevant risks that is regularly updated and senior management shares a common understanding of the principal risks facing the organization.

Risk Management: The practice of identifying and analyzing risk exposures, then taking action steps to minimize the financial impact they impose.

Risk Management Assurance: Internal Audit review of risk management activities, including defining and regularly tracking quantitative performance measures, to validate that the company's risk management program is operating effectively.

Risk Management Culture: Individuals view risk management as an integral part of the business process and are held accountable for their behavior. Specifically, the company creates incentives around risk management, ensures risk response plans are tracked, includes risk management responsibilities in job descriptions, and embeds risk metrics in performance measures.

Risk Management Objectives: Clearly defined/measurable objectives for the risk management program, as well as its risk management philosophy, vision, goal, and objectives. Risk management should be linked to corporate objectives.

Risk Management Training: Communication of the risk management strategy and structure to ensure that all employees and stakeholders understand the company's vision and objectives. Training should be provided as necessary to ensure that individuals have the relevant skills to execute on the risk management strategy.

Risk Mapping: Visual representation of risks for prioritization or ranking. This representation often takes the form of a two-dimensional grid with frequency (or likelihood of occurrence) on one axis, and severity (or degree of financial impact) on the other axis.

Risk Policies and Procedures: Board-approved risk management policies and procedures ensure everyone follows the same risk management process.

Risk Prevention: Achieved when the company has the proper levels of controls in place, routinely evaluates the effectiveness of those controls, and reports on their status.

Risk Prioritization: The process of ranking risks that are managed, by aggregating residual risks by business units or type of risk, calculating the contribution of each aggregate to total entity risk, and prioritizing the largest group-level risks.

Risk Profile: The entire portfolio of risks across the enterprise. Some companies represent this portfolio in terms of a cumulative probability distribution (e.g., of cumulative earnings) and use it as a base from which to determine the incremental impact (e.g., on required capital) of alternative strategies or decisions.

Risk Profile Monitoring: The real-time or periodic system for monitoring changes in risks, consolidating risk exposures at a portfolio level, surfacing emerging risks, and measuring risk response success or failure (including the extent to which the risk response contributes to achieving business objectives).

Risk Reporting: Integrated risk communication with existing reporting mechanisms, such that risk disclosures are tailored to the needs of key constituencies, including the Board, management, and investors.

Risk Response: The documentation of clear decision criteria around all possible risk mitigation strategies, taking into consideration the company's risk appetite. Each risk should be viewed individually and as part of the organization's risk portfolio. Also, risk owners document the risk response strategy in clear action plans. Mitigation plans should be routinely evaluated and updated, and effectively deployed when a risk event occurs.

Risk Retention: A planned acceptance of losses by deductibles, deliberate non-insurance, and loss sensitive plans where some, but not all, risk is consciously retained rather than transferred.

Risk Roles and Responsibilities: A risk structure and clear reporting lines that encompass the roles and responsibilities for managing risks from the Board level down, with clear division of responsibilities between the role of the corporate center and the business units.

Risk Securitization: The use of a debt or equity instrument (security) to finance risk, using a risk index to value the security and/or a specified loss event as a determinant of the interest or repayment date.

Risk Sharing: The premiums and losses that each member of a group of policyholders is allocated within the group based on a predetermined formula.

Risk Shifting: The transfer of risk to a separate party.

Risk Smoothing: Financing risk so that the financial impact of incurred losses is distributed between members of a risk pool over more than one financial reporting or policy period. Also known as "chronological stabilization plans."

Risk Tolerance: The willingness of an organization to incur risk to gain future reward.

Risk Volatility: A measure of the distance between an expected result and its standard deviation. The further this distance, the greater the volatility, and vice versa.

S

Security/Sector Selection Risk: A component of Total Fund Tracking Error that results from security/sector selection decisions.

Segregation of Duties & Internal Control Risk: Risk due to improper segregation of duties and internal controls not in place to ensure the integrity of information and to prevent/ detect fraud. This relates to inadequate separation of conflicting duties (i.e. receiving, recording, and depositing cash receipts by one individual would be an inadequate separation of duties). This can apply to operational reporting as well.

Service Integrity Risk: Outsourcing or contracting activities to third parties may result in the third parties not acting within the intended limits of their authority or not performing in a manner consistent with the company's strategies and objectives.

Service Provider Risk: Risk that the relationship with delivery partners will be damaged or delivery partners will lose trust/confidence in the company.

Sovereign Risk: Adverse political actions threaten resources and future cash flows in countries where the company invested significantly, is dependent upon a significant volume of business, or has entered into significant agreements subject to the laws of that country.

Special Interest Groups Risk: Risk that planning, consultation, and communications fail to recognize the needs and objectives of special interest groups.

Stakeholder Risk: Risk that relationships with stakeholders will be damaged or stakeholders will lose trust/confidence in the company.

Standards of Conduct Risk: Risk that company's fundamental ethical values will be threatened if generally accepted standards of conduct are violated.

Strategic Risk: Exposure to uncertainty arising from long-term policy decisions.

Succession Risk: Failure to address aging workforce, recruitment and professional development opportunities in human resource succession planning.

Systematic Risk: Risks associated with aggregate market conditions; a risk of security that cannot be reduced through diversification.

Systemic Risk: Risk that the entire financial system will collapse as a result of some catastrophic event.

T

Technology Innovation Risk: Failure to leverage advancements in technology to achieve or sustain competitive advantage in products, services and processes.

Total Fund Risk: The volatility of the entire fund.

Total Fund Tracking Error: A component of the total risk of the fund; it is the volatility of active returns between the Total Fund and the policy benchmark.

Transaction Risk: Risk that exchange rates will change unfavorably over time; this can be hedged against using forward currency contracts.

Translation Risk: Accounting risk, proportional to the amount of assets held in foreign currencies. Changes in the exchange rate over time will render a report inaccurate, and so assets are usually balanced by borrowings in that currency.

Transparency Risk: Risk that procurement and contracting activities are subject to both perceived and actual fairness and transparency.

U

Unauthorized Use Risk:	Unlawful use of the company's physical, financial or information assets by employees or third parties exposes the Company to unnecessary waste of resources and financial loss.
Unsystematic Risk:	Company- or industry-specific risk that is inherent in each investment. The amount of unsystematic risk can be reduced through appropriate diversification.

V

Value-at-Risk (VaR):	Risk measurement term, for the maximum loss an organization can suffer, under normal market conditions, over a given period of time at a given probability level. VaR is a common measure of risk in the banking sector, where it is typically calculated daily and is used to monitor trading activity.